

STATEMENT OF
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REGARDING ECONOMIC REGULATION OF MOTOR CARRIERS OF PROPERTY
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Mr. Chairman and members of the Committee, thank you for inviting the Department here today to discuss the Administration's views on economic regulation of motor carriers.

The Motor Carrier Act of 1980 (MCA) has now been in effect for almost four years. For much of that time, the trucking industry was burdened by weak demand for its services. However, even during difficult times, the industry as a whole continued to provide good service to shippers and receivers throughout the nation.

Overall, there has been an enormous body of evidence that the Motor Carrier Act of 1980 has had significant, positive effects on the trucking industry. Not all carriers have been able to benefit, and the depth of the recent recession caused substantial traffic declines and financial losses for much of the industry in 1981 and 1982. But most carriers have made the necessary adjustments, and some experienced their best year ever in 1983.

With the freer entry permitted under deregulation, there are now more trucking firms in business than ever before -- from 18,000 three years ago to 33,000 today. New price and service options have been introduced. Established carriers have become more efficient and innovative: for example, restructuring routes, reducing empty backhauls, and offering shippers incentives to consolidate freight into larger shipments.

Shippers now play an active role in the distribution process. They have a hand in negotiating rates and a greater choice in selecting carriers.

They can consolidate shipments themselves or through third parties, contract for particular services, and work with carriers to design transportation services best meeting their overall needs. Brokers and shipper associations are consolidating an increasing number of less-than-truckload shipments, "topping off" loads and otherwise bridging many of the gaps once existing between common, contract, and private carriers.

Now that the economy is once again strong and growing, motor carrier tonnage is improving, profits are rebounding strongly, and the quality of service remains good.

Results for the 100 largest motor carriers of property (excluding the United Parcel Service companies) show that tonnage rose slightly for 1983 as a whole, with a more strongly positive trend in the fourth quarter. However, net carrier operating income more than tripled during 1983, increasing from \$216 million to \$660 million. Other measures of carriers' financial condition rebounded even more strongly: net income soared from \$77 million in 1982 to \$360 million in 1983, and average return on equity increased from 2.6 per cent in to 12.4 per cent.

We believe that the overall results of motor carrier reform have been very positive. As the Motor Carrier Act nears its fourth anniversary, I would like to share with you today our most recent studies of the impact of regulatory reform of the trucking industry on various segments of the industry. Research concerning small (Class III) carriers, minority carriers, service to small communities, and the impact of intrastate trucking deregulation demonstrates that reform continues to work well.

Class III Carrier Study

Although very little information has been available in the past concerning small (Class III) motor carriers, it has commonly been thought that they have

done poorly as a result of deregulation and the recession. Small carriers have often been perceived as burdened with debt, less profitable than larger carriers, losing more traffic during the recession than their larger rivals, heavily dependent on traffic interlined from other carriers, and impacted more heavily by deregulation and certain remaining government regulations. However, the survey of nearly 1200 randomly selected Class III carriers recently undertaken for DOT shows that conditions among these carriers are better than most had alleged.

Even between 1980 and 1982, when the economy was very weak, the majority of all small carriers reported no significant change in revenues or assets; but more reported increases than reported decreases. Over 26 per cent of the carriers reported increased revenues, while only about 10 per cent reported decreases. Similarly, 12 per cent of the carriers surveyed showed increases in total assets, compared to about 5 per cent reporting decreased assets. The percentages of Class III carriers reporting increases or decreases in the total number of shipments handled were fairly similar, with nearly 42 per cent reporting increases and about 37 per cent noting decreases.

Although the data are not directly comparable, the series of operating and financial indicators maintained by the American Trucking Associations for 161 large regular route common carriers suggest that small carriers did somewhat better as group, between 1980 and 1982, than did the larger carriers. For example, total revenues for the 161 large carriers fell from \$13.8 billion to \$12.9 billion between 1980 and 1982. During this same two years, operating income for this group of large carriers plummeted from about \$502 million to \$64 million.

As a group, the Class III carriers do not appear to have especially heavy levels of debt. Total reported debt averaged about \$28,000 for carriers that

obtained their first ICC authority before the Motor Carrier Act and about \$49,000 for those carriers that entered the industry after the Act. The more recent entrants responding to the survey also tended to be slightly larger, in terms of numbers of employees and vehicles, than pre-MCA carriers. Although the surveyed carriers had increased the amount of interlining they did between 1980 and 1982, interlined freight remained of minor importance to total revenues overall. Interlined freight accounted for only 7.1 per cent of total revenues for all Class III carriers reporting 1982 results.

In summary, while the recent recession appears to have caused financial hardship for many carriers of all sizes, we see no evidence from this survey that small (Class III) carriers are doing worse than larger carriers. If anything, this study suggests that many of them have been successful in competing for traffic with their larger rivals.

Minority Carrier Study

One of the purposes of the Motor Carrier Act of 1980 was to improve the opportunities for minority participation in the trucking industry. In order to assess the impact of the Act on minority trucking firms, the Department commissioned an in-depth study of eight minority motor carriers. Half of the case studies examined minority carriers that obtained their first ICC operating authority before the Act, and the other half examined carriers that were new entrants into regulated interstate trucking after the Act. Carriers' views about truck deregulation were not a criterion for their selection as study participants. Although we can't generalize the results from eight cases, the overall results of the study suggest that minority carriers have benefitted from the Act, particularly its eased entry provisions.

Since passage of the Act, the eight carriers studied have applied for a total of 21 new Interstate Commerce Commission (ICC) operating authorities,

all of which were granted. All of the eight carriers studied agreed that the Act had made entry into the interstate trucking industry easier, resulting in improved opportunities for minority participation.

With respect to their experiences between July 1980 and Fall 1983, four of the eight minority carriers reported that employment and revenues increased. Four carriers reported decreases or mixed results. These results seem relatively positive, given the very weak economic conditions that prevailed during most of this time period. Reported results with respect to profits were even more positive, with four carriers reporting increases, two showing no change, one noting mixed results, and only one carrier reporting a decrease.

When asked to name the greatest business difficulties facing their firms, the carriers differed in their responses. Problems mentioned most prominently were lack of access to financing, the weak economy, the complexity of state licensing and taxes, and low rates. However, in spite of these difficulties, six out of eight carriers were optimistic about their future.

The majority of the surveyed carriers were small, five of them with revenues of less than \$1 million. Like other small carriers, they did not handle much freight interlined from other carriers. Only the three household goods carriers in the group had existing interline agreements, to enable them to share traffic with their parent van lines. Interestingly, all but one of the eight carriers stated that they actively solicit traffic to and from small communities. The one exception carries only government freight.

Small Community Service Study

The most recent phase of this study (1981-82) reaches essentially the same conclusions as the previous post-deregulation phase (1980-81): service quality and quantity has not diminished for the vast majority of the 474 rural shippers and receivers surveyed in this study. In fact, the number of

competing carriers in rural areas has increased, on balance, since the passage of the Motor Carrier Act.

For most shippers, little has changed since the first phase of the study (1979-80): there is a heavy dependence on United Parcel Service for small package shipments; considerable use of private carriage; and generally acceptable levels of freight service available from a variety of ICC certificated carriers. Although rates have increased (for the typical rural shipper) and service frequency is somewhat lower (for about 20 per cent of shippers and receivers), service quality and the level of competition among carriers are both higher. It should be noted that improvements in service quality and competition were reported much more often than deteriorations, regardless of the remoteness of the shipper or receiver's location.

Overall, 96.3 per cent of all respondents thought that post-deregulation truck service was as good or better than before. Moreover, shippers and receivers in very remote areas were as satisfied with their truck service as were small community respondents in more accessible areas: 97.3 per cent of the really rural shippers and receivers -- those more than 25 miles from an interstate highway -- reported that overall service quality was as good or better than pre-deregulation service.

In general, shippers and receivers in the small communities surveyed continue to receive adequate truck service, with no respondent finding service unavailable.

On the other hand, while the federal government is loosening the ICC's grip on trucking, some of the states seem to be going the other way. California, Arkansas, and Tennessee appear to be moving in the direction of more stringent regulation. I really believe it isn't in the interests of either shippers in small communities -- or even in the interests of the states

themselves -- to do so.

Small package shippers in most rural areas rely heavily on UPS. However, UPS has been unable to obtain intrastate operating authority in Texas. The recent Texas hearings clearly showed the lengths to which knowledgeable manufacturers and shippers will go to avoid high intrastate shipping costs, such as by setting up out-of-state distribution centers to ensure that even intrastate sales are delivered as part of an interstate movement.

Intrastate Truck Deregulation: Florida

A multi-year study was undertaken for the Department to survey shippers, carriers, and private carriers in Florida and Arizona, in order to examine the effects of intrastate truck deregulation in these two states. Although we have more years' data for Florida (which deregulated in 1980) than for Arizona (which deregulated in 1982), the overall results are remarkably similar.

The latest phase of the Florida/Arizona study shows that in early 1984, as in 1981 and 1982, shippers and receivers noted improvements in truck service resulting from the removal of all economic regulation of Florida's intrastate trucking in 1980. About 90 per cent believed that post-deregulation service was at least as good as before, with approximately 30 per cent of the respondents noting improvements in service, and only about 10 per cent citing decreases. Faster service and reduced difficulty in arranging truck transportation were reported about twice as often as slower service or increased difficulty.

A majority of all shipper/receivers (58 per cent) perceived that deregulation had held down truck rates. Similarly, 53 per cent of the respondents reported increased truck competition, while only 5 per cent noted less competition.

The generally favorable results were noted by shippers and receivers in widely varying locations, including a large number of respondents from small communities. Not surprisingly, given their perceptions of the impact of deregulation on their truck service, the vast majority of respondents preferred deregulation to regulation.

As a group, shipper/receivers and private carriers were more favorably disposed toward deregulation than were for-hire carriers. Seventy-two per cent of private carrier respondents expressed a preference for deregulation, but only 29 per cent of for-hire carriers preferred deregulation.

Intrastate Truck Deregulation: Arizona

After approximately twenty months' experience with intrastate trucking deregulation in Arizona, shippers and receivers were very positive about the results. The vast majority of respondents (76 per cent) noted increased competition, with only 11 per cent citing less competition. Similarly, 48 per cent faced an increased number of service options, while only 23 per cent saw fewer options. No shipper or receiver reported that motor carrier service was unavailable.

Roughly half of all respondents felt that overall service quality had improved since deregulation, compared to only 8 per cent noting service deteriorations. In addition, deregulation was widely believed to have had a moderating influence on rates. Fully half of all respondents felt that deregulation had held down rates, whereas only 10 per cent believed it had resulted in higher rates.

As in Florida, it is not surprising that the shippers and receivers surveyed reported satisfaction with deregulation. A large majority (72 per cent) preferred deregulation, while only 5 per cent expressed a desire to return to regulation.

As a group, Arizona carriers were more enthusiastic about deregulation than were their Florida counterparts. A plurality -- 42 per cent -- expressed a preference for deregulation, while only 34 per cent preferred regulation. The remaining carriers expressed no preference. Private carriers were not surveyed in Arizona, because it was felt that there were too few of them to yield a statistically valid sample.

Summary

Many opponents of truck deregulation argued that passage of the Motor Carrier Act of 1980 would result in poor service to shippers, with many residents of rural areas unable to obtain any service at all. These fears have been proven groundless, as truck service has remained good -- even in remote areas -- in spite of the effects of the recent recession.

Later, some opponents of reform argued that, as the economy improved, the deterioration in truck service would finally appear. Let me emphasize that, according to our most recent research, this potential decline in the quality and availability of truck service has not occurred. Small carriers and minority carriers appear to have weathered difficult economic conditions as well as, or better than, their larger rivals. Service to small and rural communities remains satisfactory, even in Florida and Arizona, both of which have removed all economic regulation from their intrastate trucking industries.

That concludes my prepared statement, Mr. Chairman. I will now be glad to answer any questions you or other members of this Committee may have.